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Message Text

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ACTION STR-07

INFO OCT-01 EUR-12 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00
AID-05 SS-15 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 OIC-02 AF-10 ARA-10 EA-10 NEA-11
/169 W
----------128523 261913Z /41
R 261730Z MAY 78
FM USMISSION GENEVA
TO SECSTATE WASHDC 0158
INFO AMEMBASSY HELSINKI

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PASS STR ELECTRONICALLY
PASS TREASURY

E.O. 11652: N/A
TAGS: ETRD, GATT, FI
SUBJECT: GATT -- BALANCE OF PAYMENTS CONSULTATIONS - FINLAND

REF: (A) STATE 130151, (B) HELSINKI 1583

1. SUMMARY: GATT BOP REVIEW OF FINLAND CONCENTRATED ON FINNISH CASH PAYMENT SCHEME, QRS AND LICENSING SCHEME AND DISCRIMINATORY ASPECT OF LATTER. FINLAND SAID RESTRAINTS STILL NEEDED BUT COMMITTEE THOUGHT THEY SHOULD BE REMOVED IF FAVORABLE BOP SITUATION PERSISTS. END SUMMARY.

2. IN BOP REVIEW OF FINNISH IMPORT RESTRAINTS MAY 23, FINN DEL OUTLINED RECENT IMPROVEMENTS IN FINNISH BOP SITUATION. HE POINTED OUT THAT IMPROVEMENT DUE MAINLY

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TO NEGATIVE FACTOR OF EXTREMELY LOW LEVEL OF DOMESTIC ACTIVITY AND THAT TRADE ACCOUNT HAD MOVED INTO SURPLUS FOR FIRST TIME IN TEN YEARS. ALTHOUGH BOP SITUATION HAD IMPROVED, HE NOTED THAT FOREIGN DEBT BURDEN WAS LARGE AND HAD RISEN TO 27 BILLION MARKKAS IN 1977 OR 22.5 PER-CENT OF GDP. HE ARGUED THAT FINLAND'S ECONOMIC HEALTH DEPENDS LARGELY ON INTERNATIONAL DEVELOPMENTS OUTSIDE

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ITS CONTROL, THAT CURRENT SITUATION HIDES IRONIC BOP PROBLEM, AND THAT PENT-UP NEED FOR INVESTMENTS IS LIKELY TO TAKE OFF ONCE INTERNATIONAL ECONOMIC SITUATION IMPROVES. WHEN THIS HAPPENS THE FINNISH BOP WOULD COME UNDER RENEWED PRESSURE. HE CONCLUDED THAT TRADE RESTRAINTS WERE NEEDED AS A SAFETY PRECAUTION AND THAT PRESENT CIRCUMSTANCES DID NOT PERMIT FURTHER LIBERALIZATION AT THIS TIME.

3. SHORT IMF STATEMENT SUPPORTED FINNISH CONTENTION THAT IMPROVEMENT WAS DUE PARTLY TO DEPRESSED DOMESTIC DEMAND BUT ALSO EMPHASIZED FAVORABLE EFFECT OF THE DEVALUATIONS OF THE MARKKA. IMF STATEMENT CONCLUDED:

"OVER THE PAST TWO YEARS THERE HAS BEEN A SUBSTANTIAL STRENGTHENING OF FINLAND'S EXTERNAL POSITION AND SOME FURTHER IMPROVEMENT IS EXPECTED IN 1978. IF THESE TRENDS CONTINUE IT WILL BECOME DIFFICULT TO JUSTIFY THE MAINTENANCE OF THE PRESENT IMPORT QUOTAS AND LICENSING ON BALANCE OF PAYMENTS GROUNDS. THE FUND APPRECIATES, HOWEVER, THAT THERE MAY BE OTHER REASONS, INCLUDING COMMERCIAL POLICY CONSIDERATIONS, FOR THE MAINTENANCE OF THESE RESTRICTIONS."

4. WE AND OTHERS WELCOMED THE IMPROVEMENT IN THE BOP AND NOTED THAT RESERVES HAD ALSO INCREASED SUBSTANTIALLY, PARTICULARLY IN LAST FEW MONTHS. DRAWING ON INFORMATION
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IN REF B, WE POINTED OUT THAT 1978 PERFORMANCE THUS FAR SHOWS FAVORABLE TREND IS CONTINUING AND QUESTIONED WHETHER RESTRAINTS WERE NEEDED ANY LONGER. EC NOTED THAT COVERAGE OF ITEMS SUBJECT TO GLOBAL QUOTAS OR SPECIFIC LICENSES HAD INCREASED FROM 8.9 TO 9.2 PERCENT AND ASKED IF THIS REPRESENTED AN INCREASE IN COVERAGE OF QR AND LICENSNG. WE ASKED FOR ESTIMATES ON EFFECT OF RESTRICTIONS AND IF FINLAND INTENDED TO SET UP A TIMETABE FOR THEIR REMOVAL AS IT HAD FOR THE PRIOR DEPOSIT SYSTEM.

5. FINNISH DEL ARGUED THAT RESERVE FIGURES WERE MISLEADING SINCE ALMOST HALF OF APRIL RESERVES OF 2.8 BILLION MARKKA CONSISTED OF FUNDS DRAWN FROM THE SPECIAL CREDIT LINE ARRANGEMENTS WITH CONSORTIA OF BANKS. HE SAID THAT THIS RISE IN RESERVES (FROM END OF 1977) DID LITTLE ELSE BUT RESTORE THE LEVEL OF RESERVES OF PREVIOUS YEARS. COMMITTEE THEN DISCUSSED WHAT CONSTITUTED AN ADEQUATE LEVEL OF RESERVES AND ADMITTED THAT A NUMBER OF FACTORS WERE IMPORTANT (EXCHANGE REGIME, FLUCTUATION OF EXPORTS, RESERVE DEFINITIONS, ETC.). IMF SAID THAT ITS EXPERIENCE SHOWED MOST COUNTRIES FELT RESERVES THAT COVERED THREE

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MONTHS IMPORTS TD BE ADEQUATE, ALTHOUGH SOME WERE COM-
FORTABLE WITH TWO MONTHS, AND FINLAND HAD TRADITIONALLY
OPERATED ON LOW RESERVES. FINNS COULD GIVE NO ESTIMATES
OF EFFECTS OF RESTRICTIONS, AND SAID THAT COVERAGE OF
RESTRICTIONS HAD NOT INCREASED BUT THAT QUOTAS HAD (AS
WITNESSED BY THE INCREASE IN IMPORTS COVERED BY THE
RESTRICTIONS).
6. WE NOTED IMF REPORT (P. 29) SAID THAT SEVERAL MEASURES
HAD BEEN INTRODUCED IN FALL OF 1977 AIMED AT STABILIZA-
TION, INCREASING EMPLOYMENT, ETC., AND THAT ONE OF OBJEC-
TIVES WAS TO PROMOTE EXPORTS. WE ASKED FOR A DESCRIPTION
OF THESE EXPORT AIDS AND WHETHER THE IMPROVED BOP SITUA-
TION AND DECREASES IN THE INFLATION RATE HAD LED TO ANY
CHANGES IN THE EXPORT COST INFLATION INSURANCE PROGRAM
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ACTION STR-07

INFO OCT-01 AF-10 ARA-10 EA-10 EUR-12 NEA-11 IO-13
ISO-00 STRE-00 AGRE-00 CEA-01 CIAE-00 COME-00
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(EII). FINN DEL SAID THAT EXPORT MEASURES CONSISTED OF
INCREASES IN COMMERCIAL STAFF SERVING ABROAD AND IN TRADE

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MISSIONS. ON EII, HE SAID LATEST DATA AVAILABLE WAS FOR 1976 WHICH HAD BEEN TRANSMITTED TO WP DEALING WITH ISSUE.

7. EC AND CANADA CONCENTRATED THEIR QUESTIONS ON CASH PAYMENT SCHEME. WHILE WELCOMING ITS RECENT LIBERALIZATION, THEY THOUGHT IT HAD SIMILAR ASPECTS TO PRIOR DEPOSIT SYSTEM WHICH FINNS HAD PHASED OUT. EC WONDERED IF IT HAD HAD ITS ORIGINAL EFFECT OF BRINGING ABOUT A SHIFT IN THE SHARE OF SHORT-TERM BORROWINGS IN FAVOR OF LONG-TERM CAPITAL IMPORTS. FINN DEL SAID THAT MEASURE WAS PART OF OVERALL MONETARY MEASURES TO SOP UP LIQUIDITY. CAN DEL THOUGHT THERE WERE BETTER MEASURES TO DO THIS THAT WOULD HAVE LESS EFFECT ON TRADE AND ASKED IMF DEL FOR A LIST OF ALTERNATIVE MEASURES THAT COULD ACCOMPLISH THIS AIM, BUT IMF DEL DIPLOMATICALLY DUCKED THE QUESTION.
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ON QUESTION OF ABOLISHING CASH PAYMENTS SCHEME, FINN DEL SAID THAT FINNS HAD REMOVED CERTAIN RAW MATERIALS, VULCANIZED PRODUCTS, CHEMICALS, MACHINERY EQUIPMENT AND CERTAIN FOODS FROM THE LIST OF CASH PAYMENT REQUIREMENTS. HE SAID, ALTHOUGH FINLAND IS NOT PREPARED TO ESTABLISH A TIME SCHEDULE FOR FURTHER LIBERALIZATION OF CASH PAYMENT REQUIREMENTS, THAT THE BANK OF FINLAND REVIEWS THE SITUATION PERIODICALLY WITH A VIEW TOWARD FURTHER LIBERALIZATION.

8. WE NOTED THAT SPECIFIC LICENSES AND QUOTAS APPEAR TO DISCRIMINATE IN FAVOR OF IMPORTS FROM EASTERN EUROPEAN COUNTRIES AND ASKED FINN DEL TO CLARIFY SYSTEM. FINN DEL JUSTIFIED SUCH DISCRIMINATION ON GROUNDS OF ARTICLE XXIV, AND WE AND CANADIANS REMINDED HIM THAT ARTICLE XXIV DOES NOT COVER BOP RESTRICTIONS WHICH ARE CLEARLY MEANT TO BE NON-DISCRIMINATORY IN NATURE AS STATED IN ARTICLE XIII OF THE GA.

9. EC ALSO ASKED FINNS ABOUT SURVEILLANCE LICENSING SYSTEM FOR CERTAIN GOODS. FINN DEL REPLIED THAT THIS APPLIED TO TEXTILES AND STEEL PRODUCTS AND THAT ITS PURPOSE WAS TO GET EARLY INFORMATION IN THESE SENSITIVE AREAS. DEL SAID LICENSES WERE AUTOMATIC AND HAD TO BE ISSUED WITHIN FIVE DAYS OF REQUESTS.

10. COMMITTEE HAD PRELIMINARY DISCUSSION ON CONCLUSIONS. WE ARGUED THAT COMMITTEE SHOULD ASK FINNS TO SET TIMETABLE FOR REMOVAL OF RESTRICTIONS; EC FELT THIS TOO HARSH AND SAID FINNS SHOULD LIBERALIZE TO LEVEL OF RESTRICTIONS PRIOR TO 1975. FINNS POINTED OUT THAT LEVEL IN 1975 ACTUALLY MORE RESTRICTIVE THAN TODAY AND ARGUED THAT THEY COULD NOT SET TIMETABLE IN VIEW OF

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UNCERTAIN ECONOMIC AND BOP FUTURE. SECRETARIAT HAS DRAFTED CONCLUSIONS WHICH DRAW FROM IMF STATEMENT THAT RESTRAINTS WILL BE DIFFICULT TO JUSTIFY IF CURRENT TRENDS CONTINUE AND RECOMMENDS THAT FINNS LIBERALIZE AS BOP SITUATION IMPROVES. CONCLUSIONS ALSO REPEAT U.S. AND CANADIAN POINTS ABOUT DISCRIMINATORY ASPECTS OF RESTRICTIONS.

11. COMMENT: WE HAVE HEARD FROM SECRETARIAT THAT FINNS ARE PROTESTING DRAFT CONCLUSIONS, AND WE EXPECT A LIVELY SESSION JUNE 1 WHEN THE REPORTS ARE CONSIDERED. FINNS APPEAR PARTICULARLY UPSET ABOUT COMMENTS ON DISCRIMINATORY NATURE OF RESTRAINTS AND ARE TRYING TO SOFTEN DRAFT RECOMMENDATIONS. WHILE WE EXPECT THERE WILL BE SOME SOFTENING OF THE CONCLUSIONS, WE BELIEVE EXERCISE HAS BEEN USEFUL IN GETTING THE MESSAGE TO THE FINNS THAT THE COMMITTEE WILL NOT CONDONE THE RESTRAINTS MUCH LONGER IF THE BOP SITUATION CONTINUES TO IMPROVE. END COMMENT.

12. WE WOULD LIKE TO COMMEND EMBASSY HELSINKI FOR ITS TIMELY AND USEFUL INFORMATION CONTAINED IN REF B.
VANDEN HEUVEL

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